



## **STAR REEFERS INC (“SRI”)**

### **REPORT FOR THE FOURTH QUARTER AND FULL YEAR 2005**

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- **Net income USD 31.2 million, up from USD 16.2 million in 2004**
- **EPS 2005 USD 3.59 against USD 1.91 last year**
- **Freight rates of 68 cents/cbft/30days (“cents”) up 25% on 2004**
- **Two additional newbuildings chartered in for 10 years**
- **Acquisition of 7 vessels for USD 132 million**
- **Increase in fleet value of approximately 16%**
- **81% of 2006, 40% of 2007 and 30% of 2008 capacities fixed**

#### **Highlights 2005**

STAR Reefers agreed with a Japanese owner to charter two new reefer vessels, each with a capacity of 585,000 cbft, for a period of 10 years. The vessels will be built at Shikoku yard in Japan. The vessels are in addition to the two newbuildings, which were chartered from the Japanese owner at the end of 2004. The first of the four vessels is scheduled for delivery in the end of Q1 2006 and the last one in Q2 2007.

During Q3, STAR Reefers took delivery of the 6 Polar vessels (1992-1993 built) from MPC for USD 117.3 million. The vessels now bear the following names: “Argentina Star”, “Brasil Star”, “Chile Star”, “Ecuador Star”, “Honduras Star” and “Uruguay Star”. On September 30, the Company took delivery of the 1991-built specialised reefer vessel, Consensus Reefer, and paid USD 14.2 million. The vessel was renamed the “Viking Star”.

The acquisition cost for the six Polar class reefer vessels of USD 117.3 million was partly financed with bank debt of USD 83 million. The balance of the purchase price was financed with a combination of a short-term loan from Siem Industries (72% shareholder of STAR Reefers) and internally-generated funds. At year-end 2005, the balance of loans from Siem Industries was USD 6.2 million. This was repaid in January 2006.

In August, STAR Reefers renegotiated its Term Loan and secured lower margins and extended final maturity to December 2010 on debt of USD 161.2 million.

On July 15, 2005, the Board of STAR Reefers Inc appointed Mr. Horst Schomburg as a non-executive director of the board of the Company. He previously held executive positions and chaired the board of Hamburg Süd, a major shipping line and a specialist in the transportation of reefer cargoes.

STAR Reefers sold 100% of its shares in Swan Shipholding III AS, the owner of the 1993-built specialised reefer Regal Star, and generated a profit on that sale of USD 2.1 million. The vessel has been taken back on long-term bare boat charter with a purchase option.

In 2005, 179,000 shares were issued under the Company's Employee Stock Option Programme.

The total issued and outstanding number of shares at December 31, 2005 was 8,678,819 shares.

STAR Reefers entered into a number of 3 and 5 years charter agreements in 2005. The strong competition for modern specialized reefers has encouraged the quality charterers to enter into longer term commitments. The proportion of STAR Reefers' capacity now fixed for 2006 is 81%, for 2007 is 40% and for 2008: is 30%.

Shipbrokers' valuation of the STAR Reefers fleet, on a like for like basis, increased over the year by approximately 16% at end December 2005.

## **Comparative Financial Statements (Q4 over Q4)**

STAR Reefers posted a net income of USD 3.4 million in 4Q 2005 (Q4 2004: USD -1.0 million). EPS were USD 0.39 (2004: USD -0.12).

Gross freight revenues increased 26% to USD 54.1 million (USD 43.0 million). Capacity employed decreased 4% to 57.3 million cbft (2004: 59.6 million cbft). Freight rates were up 25% to 60 cents (2004: 49 cents).

Administrative expenses were USD 2.4 million (2004: 1.9 million). The increase was mainly due to fees charged by external ship managers as the fleet of owned vessels increased.

Depreciation was USD 3.2 million (2004: USD 1.6 million) as the number of owned vessels increased.

Ship operating expenses, including amortisation of drydock expenses, were USD 4,800/day, or USD 600/day less than Q4 2004. Approximately USD 400/day of operating expenses /day in 2004 were due to upgrading of vessels.

Time charter expenses were USD 7.3 million (2004: 12.9 million). The number of vessels on time charter decreased from 17 in 2004 to 7 in 2005. Six Polar type vessels previously on time charter were acquired in 2005 and short-term charters expired. This was more than compensated by higher rates. Bareboat charter hire was USD 2.8 million (2004: 2.3 million) as the number of ships on bareboat charters increased from 6 to 7 vessels.

Interest expense was USD 2.2 million as compared to USD 0.7 million prior year, primarily due to the financing of new vessels and higher interest rates.

Foreign currency exchange was USD -0.4 million (Q4 2004: USD 0.2 million) mainly due to unrealized marked to market losses on forward foreign currency contracts.

## **Balance Sheets at December 31, 2005 and 2004**

Shareholders' equity was USD 120.3 million or USD 13.86 per share, based on 8,678,819 issued and outstanding shares. The equity ratio was 39%. Bank deposits were USD 17.6 million, down from USD 21.5 million at the beginning of the year, as operational cash flow was used to prepay debt and partly finance acquisitions. Long-term interest bearing debt increased from USD 99.4 million to USD 167.4 million during the year due to part financing of new vessels.

## **Market**

The average spot market rate in Q4 2005 was approximately 25 cents, down 60 % on the equivalent period in 2004. Central and South American banana exports remained sluggish as the lack of banana volume pushed up Ecuadorian exit prices. Low Mediterranean selling prices discouraged spot chartering of tonnage.

Furthermore, the Caribbean hurricane season was longer and more aggressive than usual. It took a heavy toll on banana production which is still suffering badly and on US Gulf poultry production which only began to recover in December.

Away from Central America we observed the first stirrings of early season improvements as Moroccan and Spanish citrus exports began, coupled with North European potatoes and early deciduous from South Africa and Chile.

Twelve month period chartering activity for 2006 was concluded during Q4 2005. According to Orion Shipping, the average rate increases on 12 months charters for 2006 were 17% for quality ships and 0% for older vessels. Once again, this highlights the value placed by charterers on the limited supply of modern, fuel efficient, high specification vessels.

## **Operational Issues**

Unplanned off-hire has been reduced from 1.14% to 0.53%. This result was made possible by the Action Plan implemented throughout 2005 aimed at reducing the probability of undesirable events.

## **Outlook**

The spot market has not yet recovered to the levels needed to sustain good tonnage. It has been seriously impacted by a lack in the supply of bananas from weather-beaten plantations. This supply shortage continues. We remain confident that rates will improve as both production and transportation volumes pick up and the amount of scrapping of low quality, old and bunker-hungry tonnage significantly increases.

In the meantime the quality end of the market - where the operators work closely with the quality-conscious charterers to deliver an excellent and reliable service - has been good. This sector, which will continue to be central to Star Reefers' strategy, accounts for nearly all of the business fixed for 2006.

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Also download our web page [www.star-reefers.com](http://www.star-reefers.com)  
Market data sourced from Orion Shipping

21 February 2006  
The Board of Directors of Star Reefers Inc.

This release contains certain forward-looking statements regarding the intents, beliefs or current expectations. These forward-looking statements are based on information currently held. The Company assumes no obligation to update these statements. It is important to note that these forward-looking statements involve uncertainties about future performance. The Company's actual results may differ materially from these statements as a result of various important factors beyond the control of the Company.

**STAR REEFERS INC. GROUP - QUARTERLY REPORT 2005 (IFRS)**

**PROFIT AND LOSS STATEMENT**

*(in \$ thousand)*

	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>4Q</b>	<b>4Q</b>	<b>Jan-Dec</b>	<b>Jan-Dec</b>
Gross revenue	\$ 54.146	\$ 43.044	\$ 222.107	\$ 196.243
Voyage expenses	-19.308	-14.023	-68.213	-62.048
Net revenue	<u>34.838</u>	<u>29.021</u>	<u>153.894</u>	<u>134.195</u>
Other operating revenue	-58	260	113	531
<b>Net operating revenues</b>	<b>34.780</b>	<b>29.281</b>	<b>154.007</b>	<b>134.726</b>
Ship operating expenses	-13.343	-11.425	-44.988	-41.013
Time charter hire	-7.258	-12.939	-46.197	-54.767
Provision taken to income	-	101	-	201
Administrative expenses	-2.434	-1.900	-9.295	-8.669
<b>Op. income bef. depr. and bare-boat hire</b>	<b>11.745</b>	<b>3.118</b>	<b>53.527</b>	<b>30.478</b>
Bare boat charter hire	-2.769	-2.345	-9.721	-9.274
Depreciation and amortisation	-3.190	-1.592	-9.021	-7.059
Gain (loss) on sale of vessels/subsidiary	316	234	2.045	5.056
<b>Operating income</b>	<b>6.102</b>	<b>-585</b>	<b>36.830</b>	<b>19.201</b>
Interest income	128	134	671	428
Interest expense	-2.163	-721	-4.942	-3.213
Other financial items	-62	-58	-272	-148
Foreign currency exchange gain (loss)	-403	191	-810	-59
<b>Net financial items</b>	<b>-2.500</b>	<b>-454</b>	<b>-5.353</b>	<b>-2.992</b>
<b>Income bef. taxes and minority interest</b>	<b>3.602</b>	<b>-1.039</b>	<b>31.477</b>	<b>16.209</b>
Taxes	-235	-	-235	-43
<b>Net income</b>	<b>\$ 3.367</b>	<b>\$ -1.039</b>	<b>\$ 31.242</b>	<b>\$ 16.166</b>

Earnings per share (amounts in \$)	0,39	-0,12	3,62	1,94
Diluted earnings per share (amounts in \$)	0,39	-0,12	3,59	1,91
Wtd. avg. common shares outstanding	8.677.895	8.486.189	8.639.892	8.348.912
Wtd. avg. common shares outstanding + assumed conv.	8.717.661	8.602.588	8.703.071	8.447.236
Issued and outstanding shares	8.678.819	8.499.819	8.678.819	8.499.819

**BALANCE SHEET**

*(in \$ thousand)*

	<b>2005</b>	<b>2004</b>
	<b>31 Dec.</b>	<b>31 Dec</b>
<b>ASSETS</b>		
Tangible fixed assets		
- Vessels	\$ 273.466	\$ 163.326
- Other fixed assets	138	155
Other long-term assets		
- Pension funds	229	309
- Deferred financing fees	613	382
- Long term receivables & other assets	2.649	4.367
Inventory	6.085	3.209
Current assets		
- Receivables and other current assets	11.357	11.525
- Bank deposits	17.632	21.530
<b>Total assets</b>	<b>312.169</b>	<b>204.803</b>
<b>EQUITY AND LIABILITIES</b>		
Equity		
- Share capital	87	85
- Additional paid-in capital	59.848	58.338
- Sharebased compensation	129	54
- Retained earnings	60.257	29.015
<b>Total equity</b>	<b>120.321</b>	<b>87.492</b>
- Provisions	-	-
- Interestbearing debt, long-term	135.473	85.559
- Interestbearing debt, short-term	31.906	13.878
- Other short-term debt	24.469	17.874
<b>Total provisions and liabilities</b>	<b>191.848</b>	<b>117.311</b>
<b>Total equity and liabilities</b>	<b>\$ 312.169</b>	<b>\$ 204.803</b>

<b>CASH FLOW STATEMENT</b> <i>(in \$ thousand)</i>	<b>2005</b> <b>4Q</b>	<b>2004</b> <b>4Q</b>	<b>2005</b> <b>Jan-Dec</b>	<b>2004</b> <b>Jan-Dec</b>
Cash flow from operating activities	7.239	143	39.226	14.946
Cash flow from investing activities	18.478	-18.023	-112.203	7.418
Cash flow from financing activities	-26.851	7.252	69.079	-21.046
<b>Net change in cash</b>	<b>\$ -1.134</b>	<b>\$ -10.628</b>	<b>\$ -3.898</b>	<b>\$ 1.318</b>
Cash at beginning of period	18.766	32.158	21.530	20.212
<b>Cash at end of period</b>	<b>17.632</b>	<b>21.530</b>	<b>17.632</b>	<b>21.530</b>

<b>CHANGE IN EQUITY</b> <i>(in \$ thousand)</i>	<b>2005</b> <b>Jan-Dec</b>	<b>2004</b> <b>Jan-Dec</b>
<b>Equity at beginning of period</b>	<b>87.492</b>	<b>61.646</b>
- Share issue	1.512	9.626
- Share based compensation	75	54
- Net profit for the period	31.242	16.166
<b>Equity at end of period</b>	<b>\$ 120.321</b>	<b>\$ 87.492</b>

**Note:**

*The quarterly report has been prepared in accordance with International Financial Reporting Standards (IFRS). The quarterly and year to date Profit and Loss and Balance Sheets for 2004 previously reported according to Norwegian GAAP have been restated to IFRS. The quarterly figures are unaudited, but the effect of the transition to IFRS has been audited.*